



### ISID FOUNDATION DAY

Institute for Studies in Industrial Development (ISID) observed its Foundation Day on Thursday May 1, 2008, at the ISID campus in Vasant Kunj. The Hon'ble Vice-President of India, Shri M. Hamid Ansari was the Chief Guest at the function.

Speaking on the occasion, Shri Ansari emphasized the important role that research institutions like the ISID have in contributing to informed debates on critical issues facing the nation in its battle against poverty and backwardness, and in closing the research gap between countries like India and the developed countries. Only then, he said, would we be able to make a genuine transition to a "knowledge society".

Earlier, in his welcome address, the ISID Chairman Prof. Arjun Sengupta (Member of Parliament and Chairman, National Commission on Enterprises in the Unorganized and Informal Sector), briefly recounted the history of the ISID and identified the thrust areas that the ISID had been focusing on and was diversifying into. The Vice-Chairman, Prof. S.K. Goyal (the founder-Director of the ISID), also spoke on the occasion, and highlighted the vision behind the ISID, of not only facilitating research in the Institute, but also of providing support to the research community at large through making available different kinds of research infrastructure. The Director of the ISID, Prof. S.R. Hashim, highlighted the important contributions of different individuals bringing the ISID to the point at which it is today.

### LECTURE BY PROF. R. RADHAKRISHNA

The Foundation Day Lecture was delivered by Prof. R. Radhakrishna of the Centre for Economic and Social Studies, Hyderabad (formerly Director of the Indira Gandhi Institute for Development Research, Mumbai). Prof. Radhakrishna spoke on 'Well-Being and Deprivation: Policy Issues in the Indian Context'. He brought into focus certain critical questions such as: Is there perceptible improvement in the economic welfare over the past three decades? Could it have been better? He also raised the question: How are growth and poverty related? Is growth pro-poor? He highlights the fact that there has been a sharp increase in inequalities since the mid-1990s, which has held



Chief Guest, Hon'ble Vice-President of India, Shri M. Hamid Ansari and Prof. S.R. Hashim, Director-ISID light the Ceremonial Lamp

back the rate of reduction of poverty in India. As the incidence of income poverty is declining, it is also becoming geographically more concentrated in some backward states and amongst certain social groups. Public measures on food availability and in the sphere of health have critical role to play in addressing problems of poverty and malnutrition.

### FELICITATIONS FOR CONTRIBUTION TO ISID

On the occasion of its Foundation Day, the ISID felicitated a few individuals in recognition of their contributions to the development of the Institute. Amongst them were Prof. K.S. Chalapati Rao, Prof. M.R. Murthy, and Prof. K.V.K. Ranganathan, members of the faculty who had been part of the core group at the inception of the Institute and made major contributions to bringing it to its present level. Prof. Murthy had even shouldered the arduous task of overseeing the construction of the new ISID campus and its financial aspects. Shri Bhupesh Garg's contribution in providing technical support to the Institute's academic activities was also recognized. Ms Seema Goyal Papola, who had invested enormous amount of energy and ideas in planning the interiors of the new campus, was another member of the faculty who was felicitated. Finally, the ISID noted the major contribution of two individuals from outside its staff to the successful building of its new campus by also felicitating them. These were Shri Samir Rastogi, the Architect for the project, and Shri C.S.P. Sastry, who served as Technical Advisor for guiding the project through various stages.

## SEMINAR IN HONOUR OF S.K. GOYAL

### INDUSTRIAL DEVELOPMENT & ECONOMIC POLICY ISSUES

ISID organised a two-day seminar on Industrial Development and Economic Policy Issues on June 27–28, 2008 in honour of Prof. S.K. Goyal on the occasion of his approaching 75<sup>th</sup> birthday to mark his contribution, as a visionary and institution builder.

Prof. Arjun Sengupta, Chairman, ISID, welcomed the chief guest, former Prime Minister Shri I.K. Gujral and participants of the seminar. Setting the tone of seminar, he spoke of the high trajectory of growth at 8% which at the same time had bypassed ¼ of the Indian population. He explained how the manufacturing sector also had a growth of 8% but had not increased employment and small units had limited access to finance. Similarly small and marginal farmers struggled to have access to finance. He felt an important aspect of development should be enabling the poor to have command over resources to better themselves. Fundamental problems, according to Prof. Sengupta, had to be addressed—such as unemployment, social security and transformation of Indian agriculture—otherwise development would continue to exclude majority of the people of this country.

Inaugurating the seminar, Shri Gujral acknowledged the contribution of ISID as a specialized centre for policy studies relating to corporate and industrial sectors. He expressed his happiness to see it playing its assigned role among the leading think-tanks on a wide range of issues such as corporate sector development, monopolies, crony capitalism, Indian lead industries, small enterprises, urban development, employment and globalization.

Shri Gujral pointed out that there was a widespread realization that globalization was not always a win-win situation, while it opened up opportunities for some, it severely hurt the interest of others who were not equipped to face the new environment. National policy makers, he feels, could no longer afford to ignore this harsh reality. Development, according to Shri Gujral, was a complex process and there was no unique path to achieve it. Nations had to learn to carve out their own path within the broad multilateral framework by continuously seeking to minimise risks and maximise benefits, he said. In this context national specificities have become extremely important. This

has given local researchers a definite edge over external advisers and analysts. Throughout the developing world, efforts are being made to enable nations to cope with the pressures of globalization; in this process he feels think-tanks play a 'sacred role'—to enquire, inform and influence policy.

The need for 'independent' think-tanks to supplement the efforts of administrators and policy makers in analysing issues and to enlighten people at large, Shri Gujral reiterated, could not be over emphasized. In this complex global world where pressure on the government and think-tanks was increasing, he felt it was a good sign that research institutes are increasingly involved in extending support to different ministries in India. He stressed the need to broaden this

interaction. In this regard he appreciated the work of Indian Council of Social Science Research in promoting national centres of excellence in social sciences, of which ISID is a part.

The inauguration was followed by the formal sessions of the seminar covering a wide range of subjects: Industrial Development Issues, Corporate Sector, Issues in Globalization, Globalization and the Indian Economy, Issues in Development and Human, Social and Political

Aspects of Development. As many as 31 papers were presented followed by serious and intense discussions. The contributors included Prof. G.S. Bhalla, Dr Y.V. Reddy, Prof. C.H. Hanumanthan Rao, Prof. N.S. Siddharthan, Prof. G.K. Chadha, Prof. V.R. Panchamukhi, Prof. J.C. Sandesara, Prof. Daniel Drache, Prof. D.D. Narula, Dr Harsha V. Singh, Prof. A.K. Singh, Prof. R.K. Mishra, Dr Nagesh Kumar, Shri Narendra C. Reddy, Prof. Sunanda Sen, Prof. Nasir Tyabji, Prof. Bishwanath Goldar (with Dr Atsushi Kato), Prof. S.P. Kashyap (with Dr Niti Mehta), Prof. Ashwani Kr Bansal, Dr Vinish Kathuria, Shri M. Krishna Prasad, Shri Zakaria Ziddiqui, Prof. Jaishri Jethwaney and 9 members of the ISID faculty. The Institute proposes to bring out a book later this year carrying the collection of the papers presented at the seminar. The seminar was co-ordinated by Prof. K.V.K. Ranganathan.

### ISID FACULTY CONTRIBUTIONS

#### Industry and Employment: Dissecting Recent Indian Experience

*T. S. Papola*

There is a general impression that employment growth in India has been very slow. Main reason for this is seen in slow growth



*Chief Guest Shri I K Gujral, Former Prime Minister of India inaugurates the seminar. Also seen in the picture are Prof. S.R. Hashim, Director-ISID; Prof. Arjun Sengupta, Chairman ISID and Prof. S K Goyal, Vice-Chairman-ISID*

## TRIBUTE TO ISID FOUNDER



On the occasion of the seminar assembled dignitaries, researchers and academics took this opportunity to pay tribute to his contribution to policy research and institution building.

Inaugurating the seminar, former Prime Minister Shri I.K. Gujral said Prof. Goyal the founder Director and Vice-Chairman of the Institute has been one of the foremost economic policy analysts of his time. His work and career have been informed with social purpose. The Institute that we see today is the result of his life time effort and his indomitable spirit.

Prof. Arjun Sengupta, Chairman, ISID, in his opening remarks emphasised Prof. Goyal's commitment to social change. For him economics as a subject was a means to change society and not merely an academic exercise. Prof. K.S. Chalapati Rao, senior professor at ISID, also recalled how Prof. Goyal impressed upon them from the beginning of the Corporate Studies Group that research is meant to be relevant for policy, and not for building a list of publications.

Prof. S.R. Hashim, Director, ISID, speaking at the concluding session attributed the overwhelming response to the seminar from Indian as well as the foreign scholars to the regard and respect Prof. Goyal commands among the academic community. He recounted a story of how Prof. Goyal was able to set up an Indian school in Baghdad against all odds. It was his entrepreneurial zeal, and courage of his conviction that enabled him to make this happen and this has been the defining characteristic of all that Prof. Goyal has undertaken in the course of his career.

Mr. T.N. Chaturvedi, former Governor of Karnataka, also talked about the importance of Prof. Goyal's PR skills and persuasive powers which are so essential to work through complicated processes and procedures of institution building. He also highlighted the innovative nature of Prof. Goyal's interest in policy research. He believed that if things could be identified, the elements that ought to go into policy making could be academically analysed and the outcomes would be beneficial to public administration.

Prof. N.S. Siddharthan recalled how the Corporate Study Group, created a wealth of both quantitative and qualitative research, from which researchers like him benefited immensely. But, what was most important was that this information was retrievable at a moments notice. This had to do with Prof. Goyal's early emphasis on the importance of information technology. According to Prof. Siddharthan, ISID was hi-tech from its inception. Mr T.N. Chaturvedi, also recalled to Prof. Goyal's enthusiasm for technological development and growth and the great pride he took in ISID's application of technology to develop research infrastructure and provide access to data.

Prof. Kuldeep Mathur, Former Professor, Centre for the Study of Law and Governance, JNU, pointed out that people usually remember Prof. Goyal for the contribution of the Corporate Study Group and industrial policy, however, in IIPA he is also remembered for the computer revolution which he initiated, by not only introducing many computers but also for constantly encouraging their practical use. Many young researchers who were working with him were simultaneously being trained at institutions like IIT Delhi in the use of these technologies and they were obligated to teach their colleagues whatever they learnt. According to Prof. Mathur not only did IIPA faculty colleagues take advantage of the facilities provided by him, but it also became an object of fascination for many of the children of the staff. This enabled many of them to later take up a career in IT related fields and some of them form a dedicated group of support staff at ISID today.

Prof. Mathur added that while the magnificent building in which the seminar was being held was ample evidence to his institution building capacity, an even more important aspect was that Prof. Goyal excelled in building dedicated teams and creating an infectious enthusiasm among persons who were associated with him. Prof. Mathur stressed the fact that the team you build stays with you through thick and thin, as was the case with Prof. Goyal, is an attribute of an institution builder. As Prof. Chalapati Rao pointed out the Corporate Study Group really worked as a team, the group and not the individual who was important and the message he gave was 'build your colleagues'.

Prof. N.S. Siddharthan also complemented Prof. Goyal for developing magnificent infrastructure, both physical and human. According to him the quality of latter was quite evident in the interesting presentations made by the Institute's faculty. This combination of physical and human infrastructure will ensure sustainable growth of the Institute. Mr. T.N. Chaturvedi pointed out that Prof. Goyal had the nose for picking up the right persons, those with potential and encouraging them and by giving them the necessary facilities. Prof. Rao reveals from personal experience how even among the faculty he gave opportunities to young people who came from the so-called 'backwaters' and was enthusiastic in training and nurturing them.

Prof. M.R. Murthy, senior professor at ISID, tracing the historical development of ISID said that creating an institute of this magnitude was a gigantic task and the journey has been arduous and fraught with difficulties, but Prof. Goyal with his optimism, energy and dedication was able to take all the problems as they came and was always confident of achieving his goal. Prof. Murthy felt it was important to add here that these efforts materialized and were made possible because of the trust and faith a wide range of people had in Prof. Goyal's sense of purpose and were willing to support him all the way.

of employment in the industry, particularly in its manufacturing segment. Restrictive labour laws are seen as the cause of the latter, which are also held responsible for increasing share of the unorganised sector. In this perspective, manufacturing sector, particularly its organised segment is not seen as a significant contributor to employment in the coming years.

The present paper argues on the basis of objective evidence that the above propositions are not valid. Employment growth over a long period may have been slower than the growth of labour force, but has been reasonably high if seen in relation to the rate of economic growth. It is only in the recent period of over a decade that employment content of growth has declined. This has happened due to the structural and technological changes necessitated by increasing competition in the wake of globalization, and not necessarily due to the institutional factors like labour regulation. The same holds for the relative increase in the share of unorganised sector. Industry sector has always recorded a reasonably high growth of employment and manufacturing has been a significant contributor to this growth. Employment elasticity has, in fact, increased in manufacturing, while in all other sectors it has declined, in recent period. Its employment growth has not been high due to relatively low output growth. The paper, therefore, argues for acceleration in the rate of growth of manufacturing industry as key to faster growth of productive employment.

### **Evolution of Indian Organised Manufacturing Industrial Structure: A Comparison between Liberalised and Pre-liberalised Regime**

*Atulan Guha*

This paper uses aggregate and three-digit level ASI data to compare the structure and pace of the growth of the organised manufacturing sector in the 1980s and after liberalization. It finds that in comparison to the period of the liberalized regime after 1991, the organised manufacturing sector performed better in terms of output and employment growth in the 1980s, the primary factor behind which was the technological upgradation of production process. In contrast, under the liberalized regime, the primary factor behind the growth has been increasing capital-intensities, which is mainly associated with substitution of labour by capital rather than technological upgradation. The paper suggests that these differences in the growth process of the two periods are primarily caused by a larger problem of effective demand in the later period, and perhaps a change in the demand pattern towards capital-intensive goods and decline in the relative cost of capital vis-a-vis labour due to financial market liberalization.

### **Some Aspects of Corporate Ownership in India: Promoters vs. Public**

*K.S. Chalapati Rao*

This paper examines the issue of corporate ownership in India in the background of proposals to ensure a minimum public

shareholding of 25 per cent in listed companies. It argues that while the issue of corporate governance has acquired increasing prominence in the context of economic liberalization, it has also led to minimising of direct governmental intervention in the internal matters of companies and high promoter stakes have been demanded, sanctioned and enabled in the new regime. The private sector has lobbied successfully for easing of restrictions and converted the threat of loss of control to foreign companies into an opportunity. As a result, the shareholdings of promoters in companies have become so large that they have negated the measures to improve corporate governance and rendered the official objective of using the stock market as an instrument of redistribution of wealth ineffective. The paper suggests that rather than sanctifying the 75 per cent limit for promoters share, priority should be given to devising measures which preclude undue benefiting by the promoters at the expense of other shareholders.

### **The Corporate Sector and Indian Industrialization: A Historical Perspective**

*Surajit Mazumdar*

The paper provides a brief sketch of the mutual interaction between industrial development and corporate change through the different stages of Indian industrialization. It highlights the fact that while the growth of corporate capital has been strongly related to industrial development for a long time, corporate capital's pursuit of its own interests has not managed to generate historical forces strong enough to prevent India from being one of the most stunted cases of industrialization. Further, precisely however in the period in which the sway of corporate capital is perhaps the greatest, the current phase of Indian economic history, the trajectory of Indian economic development is such that the relationship of corporate development to industrial development has taken a new turn and appears to be in some senses getting delinked from it. The paper concludes that this raises serious questions about the prospects of India overcoming the legacy of limited industrialization in the foreseeable future.

### **Empirical Evidence of Financial Integration of Emerging Markets against US**

*Mahua Paul*

The objective of the current study is to examine the degree of financial integration between India and the rest of the world by focusing on the degree of integration of India and Malaysia vis-à-vis US for the time period of January 1999 to December 2007, building on the Uncovered Interest Parity hypothesis. The real test of capital market integration, also referred to as direct financial integration, is provided in the interest parity conditions. In the Indian context, this approach to the analysis of financial market integration based on the equalization of interest rates has been largely ignored in the literature, with most researchers focusing on cross-border equity market interlinkages. Hence, an analysis of uncovered interest parity

can provide an alternative perspective on the issue of capital market integration. The study does not find evidence validating the UIP. However, it is found that CIP holds over the same time period, while the uncovered interest rate differential is nonzero. So we can infer there are no barriers to the flow of capital between India and US and Malaysia and US, but exchange rate variability remains. This is why US investors require a risk premium when investing in India and Malaysia to compensate them for the potential losses in investing in these currencies.

### **Some Aspects of FDI in the Indian Corporate Sector**

*K.V.K. Ranganathan & M.R. Murthy*

This paper attempts to arrive at some tentative estimates of the shares of FDI companies in different segments of the Indian corporate sector. The study confirms the view that in the new regime there has been a shift in the sectoral composition of FDI. The share of manufacturing sector declined substantially giving way to services and utilities. India's experience is also in line with the shift at the global level. The share of manufacturing in the world inward FDI stock decreased from 41.47 per cent in 1990 to 32.47 per cent in 2004 while that of services increased from 49.27 per cent to 62.83 per cent.



*A presentation underway during the seminar*

Even though the inflows have increased during the past few years it does appear that one cannot expect major changes in their behaviour in the near future. The emphasis should be on quality of FDI rather than the amount per se. The emphasis should be on technology transfer and local development. It has been proved time and again that entry level restrictions are no major deterrents provided other necessary conditions are in place. Simultaneous with improving the investment climate, India should pay more attention to monitoring the functioning of the Indian corporate sector, both foreign and domestic.

### **India-China Free Trade Area—Is it Feasible?**

*T.P. Bhat*

India and China are rapidly growing emerging economies in the contemporary global economy. Between them the bilateral trade is expanding at an increasingly faster rate. Against this backdrop, China proposed setting up of free trade area (FTA). So far India has been reluctant and China is keen. There is a gap in perception in the assessment of strengths and weaknesses on both the sides. The paper examines the feasibility of such an arrangement in the near future in the light of comparative advantages, structural changes in export

trade, complementarities and competitiveness. It arrives at the conclusion that a level playing field needs to be established, which requires both India and China to take certain specific measures such as India bringing down its tariff duties at Chinese level and at the same time, China should appreciate its currency to remove artificial support to its exports. It may be worthwhile to begin the process with preferential trading arrangements with the Asia-Pacific Trade Arrangement as base for which both the countries are members. This would enable them to move towards free trade area in the medium term.

### **Industrial Clusters: A Dynamic Perspective**

*Satyaki Roy*

Since the last two decades observers on industrial organisation recognize the fact of progressive swelling of the middle zone between hierarchy and markets often characterized by post-Fordist structures as industrial clusters. The importance of small enterprise clusters increased as a response to changes in knowledge composition of production as well as to changes in demand pattern. This paper primarily aims to locate this shift in the changing contours of production process caused by changes in the pattern of production and distribution of knowledge components. However, it underscores the fact that considering

industrial districts as repositories of contextual knowledge is a static view and the success stories only reflect a moment of stability between the forces of power relations that govern the growth of the clusters. The dynamics between the components of knowledge influence the dynamics of power relations within an industrial cluster resulting in trajectories of growth very different from those often conceived in idealized, static, snapshot views on industrial clusters. Hence, policy makers need to appreciate the counteractive forces, in order to intervene in a meaningful way, instead of looking for ingredients picked up from success stories.

### **Media the Key Driver of Consumerism: Macro-Micro Linkage and Policy Dimension—A Case Study of FM Radio**

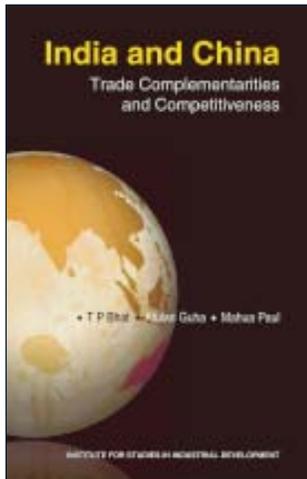
*Abhilasha Kumari*

This paper traces the changes in radio policy highlighting the influence of the political economic vision of the Indian state. Emphasizing that changes in media policy have followed the same trajectory as economic policy, namely that of liberalization, deregulation and globalization, the paper argues that these have contributed to the creation of a depoliticized transnational consumerist media and culture, addressing which requires

policy intervention to support alternative structures that could sustain plurality and diversity in the media.

## BOOK RELEASES

### Former Prime Minister I.K. Gujral Releases Two ISID Books



On the occasion of the seminar on Industrial Development and Economic Policy Issues on June 27, 2008 Former Prime Minister Shri I.K. Gujral released two ISID publications—*India and China: Trade Complementarities and Competitiveness* by Dr T.P. Bhat, Atulan Guha and Mahua Paul and *Indian Multinationals in the World Economy: Implications for Development* by Dr Jaya Prakash Pradhan.

The book *India and China: Trade Complementarities and*

*Competitiveness* looks at the rapidly growing India-China trade, which has attracted the attention of scholars and policy formulators the world over. The spectacular growth is seen against the backdrop of China's entry into the World Trade Organization (WTO), thus initiating a process of smooth flow of goods with reduction of tariff duties and dismantling of non-tariff barriers. This contributed to the expansion of India-China trade, which was facilitated by the fact that both economies were opening up and showed willingness to trade.

The broad comparison of the economies is highlighted in order to take stock of the changing paradigm. Taking a historical perspective the book analyses the trade policy components and trade policy developments of India and China. The strength and complementarities of traded products in each others markets are assessed with secondary and primary data. Competition between the two countries in third markets is also evaluated. The role of FDI in export sector is examined and finally, the efforts made by both the countries in regional and sub-regional economic cooperation are looked at with the view of setting up an 'Asian Common Market'.

The book *Indian Multinationals in the World Economy: Implications for Development* looks at the growth of Indian multinationals in their scale of operations unleashed by extensive liberalization. It sees the business strategies of outward foreign investments (OFDI) as an integral part of their business strategy. By undertaking



## UPCOMING EVENTS

- Third Annual International Conference of the Forum for Global Knowledge Sharing on *Globalisation of Knowledge Development and Delivery* (hosted by ISID), October 17–18, 2008.
- UGC-RCC ISID Refresher Course in *Corporate Economics*, November 01–22, 2008.
- *Chandrashekhar Memorial Lecture* by Prof. C.H. Hanumantha Rao, December 06, 2008.
- ISID Conference on *Corporate Sector, Industrialization and Economic Development under a Liberalized Regime*, March 2009.

Greenfield OFDI and Brownfield OFDI for acquiring foreign companies, Indian firms are enhancing their potential growth and global competitiveness. Consequently India has emerged as a major source of FDI and Indian multinationals are likely to affect world development in several ways. The book analyses the phenomenon of Indian multinational from both macro level and firm level corporate strategies and examines its implications for both India as well as the host countries. For this the book undertakes a detailed investigation of overseas investment flows and stocks from sectoral, regional, ownership and motivational perspectives from 1970 onwards. The role of innovation, entrepreneurial skills, and scale of business, productivity, and government policies receive critical attention. The book also provides comprehensive quantitative analysis as well as case studies to provide valuable insights into behaviour and impacts of these new global actors on home and host countries. The book provides a number of strategic lessons to companies aspiring to become multinationals.

## ANNOUNCEMENTS

- Prof. S.R. Hashim was elected as Chairman of Indian Association of Social Science Institutions (IASSI) in April 2008. The IASSI was established as a society (in 1979) by Shri Tarlok Singh and other eminent persons like Shri K.R. Narayanan, Dr Malcolm Adiseshiah, Shri J.P. Naik, Prof. V.M. Dandekar, and Dr Amrik Singh. It was conceived as a network of research institutions and University Departments engaged with social sciences all over the country, to basically facilitate exchange of information, encourage co-operative and collaborative arrangements for research and training, and promote sharing of infrastructure and intellectual resources between the institutions. IASSI has organised dialogues and seminars on subjects like violence and social change, terrorism, patterns of crimes, corruption, quality of life, tribal development and civil society institutions, etc., all demanding inter-disciplinary approach. IASSI has also started developing an information system and is bringing out a quarterly journal.

- Prof. S.R. Hashim has been co-opted as Member of ICSSR Expert Committee for the Baseline Survey in Minority Concentration Districts. This survey is a major national programme sponsored by the Ministry of Minority Affairs at the Centre and Coordinated by the ICSSR. A number of meetings have been held to review the work in progress.
- A Memorandum of Understanding (MOU) has been signed with the GDN on May 9, 2008 to use ISID infrastructure and research facilities. Under the MOU, ISID would allow GDN to use the facilities for undertaking research, organising conferences, seminars, training & workshops in collaboration with ISID in the areas of common interest and mutual benefit.

## ISID TO CONDUCT REFRESHER COURSE IN CORPORATE ECONOMICS FOR UNIVERSITY/ COLLEGE TEACHERS

**NOVEMBER 01–22, 2008**

The University Grants Commission (UGC) has accorded ISID the status of a UGC Refresher Course Centre for the year 2008–09. ISID proposes to conduct the first refresher course for university/college teachers, on Corporate Economics from the 1<sup>st</sup> to the 22<sup>nd</sup> of November 2008 at the Institute. The course on Corporate Economics will cover Corporate Sector, Indian Economic Development and Globalization.

The Refresher Course is built around the perspective that there is a growing importance of the private corporate sector in shaping the tempo and pattern of development in an Indian economy that is increasingly integrating with the world economy. The Course will seek to expose the participating teachers to both the empirical trends as well as contemporary analysis in the three related areas. The Corporate Sector in

Contemporary India shall constitute one major component of the course, which will cover a variety of topics related to the structure and nature of the Indian corporate sector, and the trends and patterns of change taking place in these. The Structure and Dynamics of the Global Economy would be the central theme of the second component, which shall focus on the major features of the process of Globalization. Major issues relating to and the debates on India's Current Development Trajectory will be covered in a third component. In addition the course includes a segment, on Sources of Data and Computer Applications, which shall introduce the participants to some of the basic tools and databases for accessing empirical material for research, thus exposing participants to the potential assistance technology can provide for economic research.

## PROJECTS

**e-Governance : IT Application for Land Survey and Settlement— D.N. Gupta (sponsored by Infrastructure Leasing & Financial Services Ltd. under the e-Governance programme)**

The objective of the project is to evolve the approach and methodology of survey through Photogrammetry and IT Application for better Land management. The key issues the project will address are: a system of integrated land management for development and regulatory agencies, providing integrated land-related services to citizens; and implementing systems & processes for maintenance & auto-updation of data. Besides, the land data will be added to the geographic information system (GIS) platform to benefit both the public and private sector stakeholders as a comprehensive tool for planning, development, regulatory and other activities.

**Quality in School Education—D.N. Gupta (sponsored by the Quality Council of India)**

Education is perhaps the single most important means for individuals to improve personal endowments, build capabilities, overcome constraints and, in the process, enlarge their available opportunities and set choices for a sustained improvement. It assumes more importance in the emerging context of a knowledge economy. But under the current scenario, high dropout rate and poor quality of teaching are poor reflections on the education system in the country. Therefore, while striving to universalize elementary education by 2010 without compromising on quality, the policies and programmes must comprehensively reinforce the quality in the system. Against this backdrop, the project on quality in school education envisages:

- to study the efficacy of the present education system in providing quality school education;
- to identify the quality parameters and set standards for school education; and to evolve a framework for

## NEW FACULTY

- Mr. D.N. Gupta has joined ISID as Sr. Fellow in July 2008. He joined Indian Administrative Service (IAS) in 1989 and has served in Government of Orissa and Government of India in various capacities. Prior to his joining he was Special Secretary, Housing and Urban Development Department, Government of Orissa.
- Prof. Sunanda Sen joined the Institute as Visiting Professor. Currently, she is Honorary Professor, Academy of Third World, Jamia Millia Islamia, and has had long experience in teaching and research in the area of trade, industry and finance at the Centre for Economic Studies and Planning (CESP), Jawaharlal Nehru University from where she retired in the year 2000. A Fulbright-Smith Mundt Fellow (1966–67), she has been associated with several prestigious universities and international organisations. She also has a long list of publications to her credit.

assessment of quality of education and system efficacy;

- to introduce interventions to improve quality culture in teaching, and for improving standards of school education, especially with regard to raising attendance and learning by children; and
- to evolve a framework for policy advocacy, accreditation of schools, and regulation.

## RESEARCH STUDIES (APRIL–JULY 2008)

### COMPLETED STUDIES

- Indian Foreign Direct Investment in Developing Countries 1961–2007, June 2008—Jaya Prakash Pradhan. A study prepared under the UNCTAD Research Programme on South-South FDI and Developing Country TNCs.
- South-South Investment in Infrastructure: The Operation of Indian Firms in Developing Countries, June 2008—Jaya Prakash Pradhan. A study prepared under the UNCTAD Research Programme on South-South FDI and Developing Country TNCs.
- Indian Direct Investment in Developed Region, June 2008—Jaya Prakash Pradhan. A study to be presented at the CBS Conference on 'Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies', 9–10 October 2008, Copenhagen Business School, Denmark.
- Overcoming Innovation Limits through Outward FDI: The Overseas Acquisition Strategy of Indian Pharmaceutical Firms, July 2008—Jaya Prakash Pradhan. An internal study of the Institute.

### ONGOING RESEARCH / STUDIES

- Implications of the Increase in the Prices of Petroleum Products on the Overall Price Level—Mahua Paul
- Input Intensity of Production Processes and Final Demand in Indian Economy—Mahua Paul
- Empirical Evidence of Price and Income Elasticities of Aggregate as well as Sectoral Indian Export Demand: A Panel Data Approach—Mahua Paul
- Crony Capitalism and Contemporary India—K.S.C. Rao
- Outward Foreign Direct Investments and Knowledge Flows: A study of Indian Automotive Sector—Jaya Prakash Pradhan and Neelam Singh (Delhi University). A collaborative research study.
- Mining and People's Right to Survive: A History of the Green Battle of Gandhamardan—Jaya Prakash Pradhan and Jesim Pais. An internal study of the Institute.
- Exchange rate pass through and J-curve: An analysis with Indian data—Mahua Paul

## PUBLICATIONS

### ISID WORKING PAPER

**WP2008/08: Indian Direct Investment in Developing Countries: Emerging Trends and Development Impacts, Jaya Prakash Pradhan, June 2008.**

This study has analyzed the overall and regional trends in Indian direct investment flows into developing region since 1960s and explored various development impacts they have on host developing countries. Evidence tends to indicate that developing region was the initial destination for Indian outward investing firms and continued to receive their attention over time. Developing region bound Indian FDI, which was led by a small group of Indian firms in a few selected developing countries in 1960s–80s, is now giving way to a more extensive pattern with large quantum of outward investment. A large number of Indian firms are undertaking increasing investment activities across different sub-regional developing groups and for a variety of firm-specific motivations. The fact that developing region oriented Indian firms are operating in knowledge-based industries and are undertaking local production activities than simply performing sales promotional functions, their presence could be critical for host developing countries aspiring to build their domestic capability in such technology-intensive industries.

### PAPERS / ARTICLES

- "Poverty and Inclusive Growth", by S.R. Hashim, *The Indian Economic Journal*, Vol. 5, No. 2, July–September 2007. (This issue is a back issue published actually in 2008).
- "Investment and Growth in India under Liberalization: Asymmetries and Instabilities", by Surajit Mazumdar, *Economic and Political Weekly* (Forthcoming).
- "Stock Markets", by K.S.C. Rao, *Alternative Economic Survey India 2007–2008: Decline of the Developmental State*, Daanish Books (Forthcoming).
- "Private Corporate Sector", by Surajit Mazumdar, *Alternative Economic Survey India 2007–2008: Decline of the Developmental State*, Daanish Books (Forthcoming).
- "Foundries in Duress: Identifying Impediments in Institutions and Organisations", by Satyaki Roy, *Indian Journal of Labour Economics*, Vol. 51, No. 1, pp. 91–104.

### BOOK REVIEW

- Capture and Exclude: Developing Countries and the Poor in Global Finance, Amiya Kumar Bagchi and Gary A. Dymksi (eds.), Tulika Books; Social Scientist (Forthcoming). Reviewed by Surajit Mazumdar.

### FACULTY PRESENTATIONS/PARTICIPATION

- S.R. Hashim joined the Association of Indian Diplomats as Member of a goodwill delegation of former Indian

Diplomats who visited Pakistan (Islamabad and Lahore), March 3 to April 4, 2008.

- S.R. Hashim addressed a group of Afghanistan University and College Teachers at Indira Gandhi Institute of Development Research, Mumbai, April 10, 2008. He delivered a lecture on "Income and Literacy—Lessons from India".
- Abhilasha Kumari delivered two lectures on "Development Communication and Presentation of Case Studies in Development Communication", at the Lal Bahadur Shastri National Academy, Mussoorie, April 25, 2008 for the IAS Phase I 2007 batch officers.
- Satyaki Roy, Atulan Guha, and Surajit Mazumdar participated in a workshop on "Export Potentials of Horticultural Products in the US and EU", organised by TERI, July 15, 2008.
- Surajit Mazumdar delivered a lecture on "Economic Theory and The Efficiency of the Market" at an Orientation Course organised by the CPDHE, Delhi University, July 2008.

## FACILITATING RESEARCH

### NEW DATABASES

The ISID has been trying to meet the data requirements of researchers in the area of developmental and industrial processes with special emphasis on technology and capital transfers, international trade, labour and employment. The range of coverage and variety of databases at the ISID are being continuously enlarged and updated. The following new databases have been added recently:

- Unit level NSSO data on CD-ROM for the period from 1983 to 2005–06;
- Annual Reports Database of BSE and NSE Listed Companies 1999–2007 (DVD-ROM);
- Annual Survey of Industries 1973–74 to 2003–04 Vol. II;
- IMF Statistical Database (CD-ROM); and
- World Development Indicators 2007 (CD-ROM).

### LIBRARY UPGRADATION

ISID has recently added to its collection reference readings comprising New Palgrave Dictionary of Economics, 2 edition (8 Volumes); Handbook in Economics Series (60 Volumes); Encyclopedia of Cities and Towns in India (27 volumes); and a good number of storage and display racks for books and journals sections have been added to the library. ISID has joined the ICSSR consortium for accessing E-journals such as JSTOR. JSTOR is a full text of digital archive of important scholarly and academic journal spanning many disciplines. Institute is having access to the database since March 2008.

## INFRASTRUCTURE DEVELOPMENT

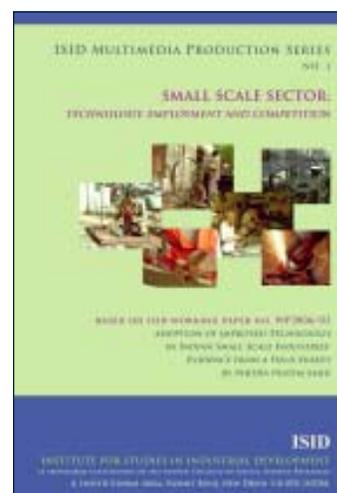
New audio system for the main conference hall has been installed and a 10 mega pixel Digital SLR Camera has been acquired to meet the in-house needs during seminars and conferences.

### ISID SOCIAL SCIENCE DATABASE ON THE UGC INFLIBNET

Since 1999 the Institute for Studies in Industrial Development (ISID) has been maintaining a Website to provide access to the databases and Research Reference Indexes to more than 135 Indian Social Science Journals and major English daily press. The University Grants Commission (UGC) supported this activity initially for three years by way of providing a grant during the Ninth Plan and part of the Tenth Plan period. During this period, the scope and coverage of the website was enhanced significantly. The Website proved to be popular among the academics and others in India and abroad. ISID Social Science Database has now been included in the UGC's Information and Library Network (INFLIBNET) with an annual grant of Rs. 35.00 lakhs for maintaining and updation of the databases during the XI Plan period. This will add a new dimension to the INFLIBNET in terms of social science coverage.

### ISID MULTIMEDIA PRODUCTION SERIES

During the seminar organised in the honour of Prof. S.K. Goyal, the Media Centre, released the first of the ISID Multimedia Production Series, a CD-ROM titled *Small Scale Sector: Technology, Employment and Competition*, produced by Seema Goyal Papola and the Media Centre team. This is the first step in the direction of translating Prof. Goyal's vision of integrating social science



research and new media technology. This CD is based on the working paper by Dr Partha Pratim Sahu titled *Adoption of Improved Technology in Indian Scale Industries: Evidence from a Field Survey*. The contents of the CD are:

- Full text of the Working Paper
- 20 minute Documentary Film
- Interviews of experts (Video)
- More than 200 clippings of Articles and Editorials on Small Scale Sector (SSS) published in 15 English Newspapers since the year 2000.

- Index of Articles on SSS published in 15 English Newspapers (since 1991) and various Indian Social Science journals.
- Select Policy Documents
- Full text of past ISID studies on SSS
- Some basic data
- Research Links
- Bibliography

## INTERNSHIP PROGRAMME

- Three M.Sc. students, namely Mr. Rayies Altaf, Mr. Nagendra Chaturvedi and Mr. Rajendra Joshi from Centre for Science Communication, Devi Ahilya Vishwa Vidhyala, Indore joined the Institute on March 01, 2008 to work as interns under the guidance of the Media Centre faculty comprising Abhilasha Kumari and Seema Goyal Papola, for a period of three months. They completed a documentary film *Small Scale Sector: Technology, Employment and Competition* based on the Working Paper by Partha Pratim Sahu, who was also the subject expert for the film, titled *Adoption of Improved Technology in India's Small-scale Industries: Evidences from a Field Survey*.

Looking at industrialization as an important aspect of development the film focuses on the small scale industrial sector and its contribution both towards employment as well as to the national economy. The film attempts to discuss the serious policy issues that confront the SSIS in the context of increased competition as a result of liberalization and globalization.

- Bhawesh Kumar Sah, who is doing his M.Sc. in Financial Economics at the Madras School of Economics, Chennai, did his summer internship at the Institute in June-July. He worked on the finances of large Indian software companies under the supervision of Surajit Mazumdar.



Internship students from Devi Ahilya Vishwa Vidhyala, Indore seen with their supervisors

## BOOK REVIEW

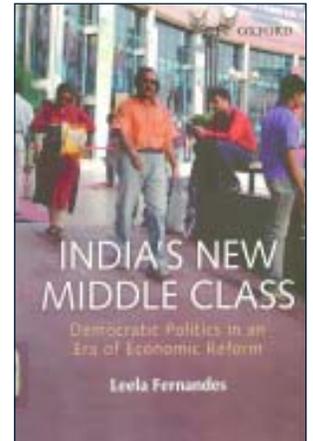
### INDIA'S NEW MIDDLE CLASS: DEMOCRATIC POLITICS IN AN ERA OF ECONOMIC REFORM

**By Leela Fernandes**

Oxford University Press

Reviewed by Satyaki Roy

Middle class assumes a volatile space in the structural dynamics of societies, the boundaries of which are redefined in historical twists and turns. 'India's New Middle Class' by Leela Fernandes explores in a multidisciplinary framework the genesis of the emerging middle class, its historical roots, defining representations, symbols, work ethics and finally its politics of distinction. The study does not



locate the new middle class within the limits of economic categories defined by income class, or the restrictive frames of cultural categories. The notion of middle class in this book spills over beyond economic definitions, discovers the 'becoming' of this class as a confluence of related historical economic sociological and cultural processes. The major issues raised by the book are: How is the new middle class different from the old? How the metamorphosis parallels the political economic changes that have taken place? How has the emerging class renegotiated its claims with the liberalized state? How does it assert itself in the arena of public discourse and redefines the democratic space beyond electoral politics?

The genesis of the Indian middle class is located within the context of British presidencies but grew to encompass other wider processes. English educated elites evolved as an offshoot of policies aimed to produce a native appendage to imperial administration. Upper caste *bhadrolok* (middle class), however, went beyond these limiting colonial imperatives creating an aura of respectability and representing colonial modernity. It carved out a new identity, differentiating itself from traditional values and vernacular symbols, embracing Western notions of modernity on the one hand and on the other claiming to symbolize the new India in the minds of masses. Because of the stunted growth during the colonial period the class remained small in numerical strength, nevertheless, the class influenced considerably national image of Independent India. The birth of the nation was marked by profound faith in independent trajectories of progress and welfare, the state protecting citizens on the one hand and demanding sacrifice of present consumption for the cause of a better distant future on the other. Large dams, steel plants, public enterprises and so on were symbolized as hallmarks of India's progress as were the emerging middle class who were seen as the new face of

Independent India. The class not only grew manifold because of the expansion of public activities, it was seen as the potential force, an active agent in the process of development.

The author locates the structural break between the old and the new in the 1980s, the Rajiv Gandhi era, a period when India started to open up to the world breaking the shackles of austerity and import substitution, flying high on the wings of new technology. The older Gandhian approach was replaced by a new smart face of India throwing away the cult of a khadi clad ascetic. New India celebrates the rise of 'the consumer'-moving away from the rhetoric of national pride in self-reliance and definitive engagement with nation building. Fernandes symbolizes the shift by using the metaphor of the movement from the Ambassador to the Maruti. Progress seems to be redefined: it flows from the consumer to the nation and not the other way round, as it was in the earlier era. Multinational Companies were unbound; a range of consumer products came back in a new garb, and advertised images to capture Indian minds by blending modern consumption with relics of Indianness. The rise of the new middle class was encouraged by the flush of new consumer goods.

Consumption alone, however, according to Fernandes does not explain the rise of the new middle class. The same process that opens up wider choices for consumption is also the one that entails significant shift in employment patterns. The political economy of education once again favours upper caste affluent sections. Getting entry into new affluent domains requires an MBA degree or IT diploma or at least endowments of accented English for a call center job. The author argues that although the new forms of employment provide the option to remain afloat in the stream of middle class consumption, nonetheless, it is packaged with greater degrees of tension, insecurity and mental stress. Moreover the middle class in any case didn't evolve as a homogeneous category so that the gains and pains are evenly distributed across the class, as a result fissures and discontents are quite frequent. But, these discontents usually do not take the shape of organised protests against liberalization because new employees believe it is the liberalization process itself that has thrown up new opportunities, hence, it is better to sort out problems individually rather than coming out on the streets as was the case in the past. The author explains the change in terms of the new 'consumer' identity that dominates the 'employee' identity of the new middle class.

The most interesting exposition is how the class asserts its distinctive politics in the realm of public discourse. Although voting turnout is very low within this segment the new class dominates public discourse through several channels and influences public policy. It gives rise to spatial politics that basically tries to carve out a distinctive space of its own, thereby redefining modern cities of their own image and often succeeds in keeping the governments on their sides in the process of excluding others. However, this is not at all a smooth process and gives rise to new political combinations that represent the marginalized voices—be it the backward caste or class. The

author argues that the new urbanized upper caste middle class tried to reassert itself by the 'Hindu' cult, especially in North India, often mixed with great fear towards the rise of *abhadr* lower castes.

The book provides a useful analysis to social scientists of varied disciplines and raises important questions for further research on the emerging middle class in India. Despite being an outstanding exposition the book perhaps de-emphasizes if not ignores the other aspect of the story, i.e how the middle class negotiated with other oppressed classes in periods of crisis both during the pre-Independence period and after.

## OBSERVATIONS

### WHAT TO DO WITH RISING INFLATION?

By Atulan Guha

In the last few months, the Indian economy has seen substantially high inflation rates. This has raised two major concerns. The first is that finance capital (represented by foreign institutional investors) dislikes high inflation in any country as it leads to devaluation of the country's currency. As encouragement and facilitation of such capital is a major part of the present economic policy framework, the high inflation is a matter of concern for the Government. Secondly, the overwhelming majority of the working population who have high consumption propensities but whose incomes are not inflation indexed, are being impoverished by the high inflation rate. This may further create the problem of lack of effective demand in the economy and put a constraint on economic growth.

The initial response of Indian administration has been the policy of demand deflation through monetary policy coupled with import of food items, including allowing private food processing sector to import wheat and sugar, and banning the export of pulses. But, these have so far failed to contain high inflation, which is now coupled with slower industrial growth. The question that arises is the following: Is the recent high inflation the result of the high growth of the last 4–5 years coming up against some supply obstacles or does it mark the beginning of a stagflation kind of situation where the cost of production itself is increasing? If the former scenario is true, with growth slowing down the inflationary pressures will abate and the demand deflationary measures will be adequate for containing inflation. But in the alternative scenario, high inflation is likely to be coupled with low growth. The demand deflationary measures will only be growth depressing; it will not reduce the inflation driven by cost push factors.

At the sectoral level the main contributors to recent inflation have been food items, energy (mainly coal and petroleum oil), minerals (mainly iron ore and aluminium), and basic metal based manufacturing products like iron and steel (Source: Neha Batura, EPW, June 14, 2008). Of these, food inflation affects the poor most. At the political level two explanations have

been provided for rising food prices. The Indian Prime Minister has argued that food prices in India are reflecting increasing international food prices. The American President on the other hand has argued that high food consumption by the people of India and China is causing food inflation. Both the arguments at best can be termed as partial truths. Indian per capita food consumption has fallen over the years. While Chinese food consumption levels may have increased, that does not explain fully the increase in international food price. There are other important factors like diversion of agro-land to crops for bio-fuel in the developed countries and production shortages in Australia that are responsible. Apart from these recent factors, there is the long term trend of declining world per capita supply of food, which may be a result of the increasing lack of viability of peasant agriculture due to decline of demand caused by income deflation of the working people.

While it is true that there is an increasing strength in the linkage between international food prices and domestic prices in India, this is mainly because of increasing inability of the government to use its procurement and distribution mechanism as a means of controlling the domestic prices of food grains. The government has increasingly failed to ensure that the marketed surplus of these commodities grow at a fast enough pace to match up to consumption and buffer stocking requirements. The reason for this is two-fold. Firstly, the liberalization of trade in many of these commodities has seen the entry of private players including multinationals who have piled stocks at the expense of procurement by government agencies like Food Corporation of India. Secondly, the rate of growth of food production in India has been substantially lower than the population growth rate throughout the liberalised policy regime era. Consequently there has been a decline in per capita food availability, though inadequate purchasing power of the working people has for a long time checked its effect on prices. But supply shortages along with rising international price has induced speculation and hoarding by private players. Eventually the result of all these is high food inflation. The policy of tackling supply shortages through imports, when a part of it is to be done by private players, can check high food prices only if international prices are lower than domestic prices. As this is not the case currently, containing inflation requires an enhancement of

agricultural production, in particular of food production. This in turn requires creating conditions for the financial viability of peasant agricultural activities. Such conditions would need along with loan waivers, among other things, increase of public investment in agriculture and the enhancement of the public procurement system of agricultural products.

Apart from food, international factors are behind the increase in prices of the two other major constituents of high inflation, namely energy and metals. Partly the recent sharp increase in the prices of commodities in these groups is the speculative demand for them. As the global financial market is in turmoil following the crisis in US sub-prime market, the commodity exchange market has emerged as an important destination of speculative capital (which also prompts one to question the wisdom of the Government of India's decision to allow the functioning of commodity exchanges). An additional factor is the growing gap between world demand and supply in these products. The demand from developed world, particularly China, is the primary reason for high world demand. While the demand from India too has increased substantially, India's share in total world demand is negligible.

Both energy and metal are primary and exhaustible products, and increases in their prices have a cost push effect on the manufacturing sector. The response from the government in the form of demand deflationary measures cannot check the rise in their prices when international demand is its source, because these measures have little impact on world demand. As a consequence, it is not inflation but growth of the Indian manufacturing sector that will be held back by such measures. This indicates that stagflation is a distinctly likely outcome. The solution to inflation thus lies in measures like the non-passing of the high international petroleum price to domestic economy coupled with measures to reduce the conspicuous consumption of petroleum (e.g., by private cars). Further, there is a need to impose restrictions on coal and primary metal exports as they are exhaustible resources (it may be argued that coal can be substituted with nuclear energy, but that would further fuel inflation since the production cost of per unit nuclear electricity is substantially high). These, along with the need to revive food production, point towards focus on supply-side adjustment for containing inflation.

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